

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

RECEIVED
SEP 26 4 06 PM '01
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

NOTICE OF FILING OF COPIES OF MISSING PAGES FROM
DIRECT TESTIMONY OF KIRK T. KANEER (USPS-T-38)
(September 26, 2001)

The United States Postal Service hereby provides notice of the filing of copies of the last 11 pages of witness Kaneer's direct testimony (USPS-T-38). Because of a printing error, the end of page 33 and all of pages 34 through 43 are missing from the paper copy initially provided to the Postal Rate Commission and intervenors. A copy of the missing pages is attached.¹

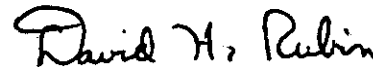
The Postal Service provided a complete electronic version of witness Kaneer's testimony to the Commission on September 24. That version has been available on the Commission's web site since it was provided.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



David H. Rubin

475 L'Enfant Plaza West, SW
Washington, DC 20260-1137
(202) 268-2986; Fax -6187
September 26, 2001

^{1/} The page with a printer error message that follows page 33 is not part of the testimony.

7. Simplicity of structure for the entire schedule and simple, identifiable relationships between rates or fees charged the various classes of mail for postal services

4 The proposed post office box fee schedule is simple and promotes
5 identifiable fee relationships to the greatest extent practical. A little additional
6 complexity is needed to accommodate the transition to a more cost-based fee
7 structure. For example, an additional fee group is needed to avoid undue fee
8 impact on customers as city and non-city carrier offices converge into cost-based
9 groups. Although one more fee group has been added, it is important to consider
10 that the proposed fees are based on the new cost groups and represent more fair
11 and equitable fees that are better aligned with costs.

12 The proposed caller service, reserve number, additional key and customer
13 initiated lock replacement fees remain simple in design, each having only one fee
14 cell.

9. Such other factors as the Commission deems appropriate

15 In its Docket No. R2000-1 Opinion, the Commission suggested that the
16 Postal Service examine ways to introduce discounted fees at locations having a
17 disproportionately high level of boxes not in use.¹⁸ The Postal Service has
18 considered that suggestion and believes that the time is not yet ripe to introduce
19 such discounts, partly due to the complexity of identifying and defining "under
20 utilization", while fee groups are re-aligned with costs as proposed in this docket.
21 Assuming that the current proposals are realized, the Postal Service intends to
22 further monitor box use in response to price change at the local level and re-
23

1 evaluate the efficacy of utilization discounts in the future. In any event, the
2 Postal Service realizes the need to encourage the public's full utilization of
3 currently installed boxes, as well as the need to have fees that allow for the
4 economically justified expansion of service to those customers desiring service in
5 high cost areas.

6 D. Conclusion – Post Office Box and Caller Service

7 The Postal Service believes the proposed classification and pricing
8 changes meet the statutory classification and pricing criteria for post office box
9 and caller service. In particular, the proposed post office box fees should be
10 evaluated in light of the ongoing need to further increase fee alignment with
11 costs. The Postal Service has used the most accurate data available in
12 preparing the proposals for this docket. However, as before, the Postal Service
13 plans to utilize the best available data at the time of implementation for actual fee
14 assignment for post office boxes. The Postal Service plans to revalidate local
15 space cost estimates and current fee assignments, accounting for any changes,
16 prior to actual implementation of the fees proposed in this docket.
17 Implementation plans call for data components, such as current fee group
18 assignment, to be verified by field personnel as well. This should ensure that
19 actual post office box fee assignments are reasonably accurate and consistent
20 with the fee structure and pricing formulae which form the foundation for the
21 proposed post office box fees proposed in this docket. Post-implementation
22 corrections may also be made. This will allow the use of the highest quality space

¹⁸ PRC Op., R2000-1, Vol. 1, at 540.

- 1 cost estimates and fee assignment data available, before and after
- 2 implementation.

3 IX. Special Handling

4 A. Description

5 Special handling provides expedited handling for Package Services and
6 First-Class Mail (including Priority Mail) during processing and transportation.
7 Special handling fees vary by weight. C.O.D., insurance, and return receipt for
8 merchandise services may be added. This service is required for items
9 containing live poultry, crickets, honey bees, or similar items, unless sent at First-
10 Class Mail rates.

11 B. Volume and Revenue Trends

12 Special handling volume remained fairly consistent throughout the
13 1970s. From 1978 to 1986 volume declined sharply, to 1.6 million pieces. From
14 1987 to 1998, annual volume continued to decline, remaining well below one
15 million pieces and reaching a low of 39 thousand pieces in 1998. However, with
16 the extended availability of Special Handling for First Class Mail (including
17 Priority Mail) pieces in January 1999, a sharp increase in volume was reported in
18 Revenue Pieces and Weight (RPW) statistics. Volume in FY2000 reached 1.4
19 million pieces. A complete volume and revenue history is provided in USPS-LR-
20 J-92.

21 Special handling revenue declined in conjunction with volume. In the
22 years since 1987, estimates of volume and revenue have fluctuated as volume

1 dropped below 800,000 pieces. Even though the most recent estimates indicate
2 a sharp turnaround in volume and revenue trends, perhaps due to the availability
3 of service for First-Class Mail, caution must be taken in interpreting the FY 2000
4 data.

5 C. Cost Estimation Difficulties

6 Difficulties in explaining special handling unit costs were noted by the
7 Commission in Docket No. R2000-1.¹⁹ In that docket, witness Daniel maintained
8 that the CRA may not accurately capture special handling costs. She noted that
9 the Postal Service had not been able to gather data for a special handling cost
10 study (Docket No. R2000-1, USPS-T-28, at 30-31). In light of the lack of cost
11 data, the Postal Service did not seek any change to the special handling fees at
12 that time.

13 Special handling costs for First-Class Mail pieces were allocated to First-
14 Class Mail costs rather than special handling in the base year CRA. On the other
15 hand, the base year RPW did recognize the special handling First-Class Mail
16 pieces when that service when that service became available in January 1999.
17 Thus, there is a mismatch between the reported aggregate cost and pieces for
18 special handling. Therefore, a reliable unit cost estimate is not currently
19 available.

¹⁹ PRC Op., R2000-1, Vol. 1, at 588.

D. Fee History

The fees for special handling have increased eight times since Postal Reorganization, in 1976 (twice), 1978, 1981, 1985, 1988, 1991, and 1995. A detailed fee history for special handling is presented in USPS-LR-J-93.

E. Proposal

Special Handling fees have not increased since 1995, nearly seven years ago. The Postal Service proposes to increase special handling fees by 10 percent. The table below presents the current and proposed special handling fees and percent change.

Table 4.

Special Handling

<u>Description</u>	<u>Current Fee</u>	<u>Proposed Fee</u>	<u>Percentage Change From Current to Proposed Fee</u>
Up to 10 pounds	\$5.40	\$5.95	10.2%
Over 10 pounds	\$7.50	\$8.25	10.0%

F. Assessment of the Nine Statutory Criteria

1. The establishment and maintenance of a fair and equitable schedule

The proposed fees for special handling service are fair and equitable. Special handling fees were last changed in 1995. A ten percent increase is modest over this time period, when system-wide price increases in January 1999, January 2001, and June 2001, were 3 percent, 4.6 percent, and 1.6

1 percent, respectively, representing a nearly 10 percent compounded increase.

2 Special Handling customers should not benefit from a constant fee when most
3 customers are incurring substantial increases. In summary, the proposed fees
4 are fair and equitable and reflect a balanced consideration of the criteria.

5 **2. The value of the mail service actually provided each class or**
6 **type of mail service to both the sender and the recipient,**
7 **including but not limited to the collection, mode of**
8 **transportation, and priority of delivery**

9 Customers who choose special handling are willing to pay fees similar to
10 the current fee levels for the benefits this service provide. Special handling is a
11 high value service to customers whose mailings require extra handling effort and
12 transportation consideration, such as live animals.

13 **3. The requirement that each class of mail or type of mail**
14 **service bear the direct and indirect postal costs attributable**
15 **to that class or type plus that portion of all other costs of**
16 **the Postal Service reasonably assignable to such class or**
17 **type**

18 The proposed special handling fees will result in revenues that are more
19 likely to recover the associated test year costs and contingency, as well as
20 contribute to other costs. Though unit cost measurement difficulties are
21 recognized, there is no reason to believe that costs have stayed constant, or
22 declined, since 1995 – the last time the special handling fees were changed.

23 **4. The effect of rate increases upon the general public,**
24 **business mail users, and enterprises in the private sector of**
25 **the economy engaged in the delivery of mail matter other**
26 **than letters**

1 The proposed special handling fees represent a 10 percent increase since
2 they were last increased in 1995. A 10 percent increase over an 8-year period
3 should not be burdensome.

4 **5. The available alternative means of sending and receiving**
5 **letters and other mail matter at reasonable costs**

6 Special handling service is a requirement for certain items, such as live
7 animals (DMM S930.1.4). Hence there are no available alternatives that the
8 Postal Service offers. However, there are other means for expediting handling,
9 such as the use of Priority Mail.

10 **6. The degree of preparation of mail for delivery into the postal**
11 **system performed by the mailer and its effect upon reducing**
12 **costs to the Postal Service**

13 Special handling mailers must prepare items, in the case of live animals,
14 in a way that protects from harm. Working together, mailers and the Postal
15 Service give these items additional preparation and handling that aids the
16 prevention of avoidable costs during handling, or for clean-up, or disposal.

17 **7. Simplicity of structure for the entire schedule and simple,**
18 **identifiable relationships between rates or fees charged the**
19 **various classes of mail for postal services**

20 The proposed special handling fee schedule is simple, composed of only
21 two fee cells distinguished by weight.

22 **X. Parcel Airlift**

23 **A. Description**

24 Parcel airlift service provides air transportation of parcels on a space-
25 available basis to or from military post offices (MPOs) outside the 48 contiguous

1 states (from the post office of origin to the appropriate port of embarkation) for
2 onward dispatch to other overseas MPOs or (from the port of embarkation for
3 onward dispatch) to a post office within the 48 contiguous states.

4 Parcel airlift service is available for Package Services Mail that does not
5 exceed 30 pounds in weight or 60 inches in length and girth combined, when it is
6 mailed at or addressed to any overseas military post office outside the 48
7 contiguous states.

8 Certificate of mailing, insured mail, restricted delivery (if insured for more
9 than \$50), return receipt (if insured for more than \$50) and special handling
10 services may be combined with parcel airlift service if the applicable standards for
11 the services are met and the additional fees paid.

12 **B. Volume and Revenue Trends**

13 Parcel airlift volume was 6.8 million pieces in 1970 compared to about
14 8,000 pieces projected in test year 2003. Parcel airlift revenue has decreased
15 significantly since Postal Reorganization, resulting from the substantial volume
16 decrease (see USPS-LR-J-92 for a detailed listing).

17 **C. Fee History**

18 The fees for parcel airlift have decreased once and been increased three
19 times since Postal Reorganization. In 1978, separate fees based on weight were
20 established and the fee for up to 2 pounds was decreased 75 percent, the fee for
21 over 2 up to 3 pounds was decreased 50 percent, and the fee for over 3 up to 4
22 pounds was decreased 25 percent. In 1981, the fees increased 20 percent, and
23 in 1991, the fees increased 17 percent. As a result of Docket No. R94-1, in 1995

1. the fee for up to 2 pounds increased 14 percent, the fee for over 2 up to 3
 2. pounds increased 7 percent, the fee for over 3 up to 4 pounds increased 10
 3. percent, and the fee for over 4 pounds increased 11 percent. The fees have not
 4. been increased since 1995.²⁰

5 **D. Proposal**

6 The Postal Service proposes to increase the current fees for parcel airlift
 7 as near to ten percent as rounding considerations allow. The table below
 8 presents the current and proposed parcel airlift fees, and percentage change.

9 **Table 5.**

10

<u>Description</u>	<u>Parcel Airlift</u>		<u>Percentage Change from Current to Proposed Fee</u>
	<u>Current Fee</u>	<u>Proposed Fee</u>	
Up to two pounds	\$.40	\$.45	12.5%
Two to three pounds	\$.75	\$.85	13.3%
Three to four pounds	\$1.15	\$1.25	8.7%
Over four pounds	\$1.55	\$1.70	9.7%

11 **E. Assessment of the Nine Statutory Criteria**

12 **1. The establishment and maintenance of a fair and equitable** 13 **schedule**

14 The proposed fees for parcel airlift service are fair and equitable. Parcel
 15 airlift fees were last changed in 1995. A ten percent increase is modest over this

²⁰ A detailed fee history for parcel airlift is presented in USPS-LR-I-93.

1 time period, when system-wide price increases in January 1999, January 2001,
2 and June 2001, were 3 percent, 4.6 percent, and 1.6 percent, respectively,
3 representing a nearly 10 percent compounded increase. Parcel airlift customers
4 should not benefit from a constant fee when most customers are incurring
5 substantial increases. In summary, the proposed fees are fair and equitable and
6 reflect a balanced consideration of the criteria.

7 **2. The value of the mail service actually provided each class or**
8 **type of mail service to both the sender and the recipient,**
9 **including but not limited to the collection, mode of**
10 **transportation, and priority of delivery**

11 Customers who choose parcel airlift are willing to pay fees similar to the
12 current fee levels for the benefits this service provide. Parcel airlift is a high
13 value service to customers desiring airlift for their parcel post mailings to MPOs.

14 **3. The requirement that each class of mail or type of mail**
15 **service bear the direct and indirect postal costs attributable**
16 **to that class or type plus that portion of all other costs of**
17 **the Postal Service reasonably assignable to such class or**
18 **type**

19 The proposed parcel airlift fees will result in revenues that are more likely
20 to recover the associated test year costs and contingency, as well as contribute
21 to other costs.

22 **4. The effect of rate increases upon the general public,**
23 **business mail users, and enterprises in the private sector of**
24 **the economy engaged in the delivery of mail matter other**
25 **than letters**

1 The proposed parcel airlift fees represent a 10 percent increase since they
2 were last increased in 1995. A 10 percent increase over an 8-year period should
3 not be burdensome.

4 **5. The available alternative means of sending and receiving**
5 **letters and other mail matter at reasonable costs**

6 Priority Mail is another means for expediting handling and in many cases
7 is less expensive than parcel post combined with parcel airlift fees.

8 **7. Simplicity of structure for the entire schedule and simple,**
9 **identifiable relationships between rates or fees charged the**
10 **various classes of mail for postal services**

11 The proposed parcel airlift fee schedule is simple, composed of only four
12 fee cells distinguished by weight.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

David H. Rubin
David H. Rubin

475 L'Enfant Plaza West, SW
Washington, DC 20260-1137
September 26, 2001